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Bureau of Consumer Protection

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An Education in Scholarship Scams

Sharon McPherson of Fort Washington, Md., looked on the financial aid application process for her college-bound daughter as daunting. But her efforts to alleviate her anxieties may best be described as haunting.

Nearly two years after signing up with a scholarship service company, McPherson is struggling to get out of the clutches of what she describes as a scam. She says that despite her initial payment of \$495 and a \$20 monthly fee automatically deducted from her checking account, the company has not provided the services it promised. She's asking the company for a refund and has filed the forms necessary to stop the automatic deductions. Now she's waiting to see what happens.

"This was a waste of money," she says. "This company didn't do much. I could have done it all on my own."

In fact, McPherson says, her daughter applied for scholarships on her own and, without any help from the company, got two offers.

McPherson has learned what the Federal Trade Commission and financial aid experts have urged for several years: caution when dealing with financial aid services. Despite their elaborate claims and professional images, some are scams, and the services they promise for a fee are those that parents and students can – and sometimes must – do on their own. The Federal Trade Commission is a law enforcement agency that works for the consumer to prevent fraud, deception and unfair business practices in the marketplace.

Many financial aid services operate legitimately, telling students and their families up front what they can and can't do for them. Typically, they provide students with lists of scholarship sources for which students may qualify by comparing their profiles with scholarships compiled in a computerized database. Others work one-on-one with families to design strategies to increase financial aid eligibility.

The National Association of Student Financial Aid Administrators estimates that some 350,000 people lose \$5 million a year to financial aid scams. FTC and state law enforcement efforts have been reining them in: Since 1996, court orders or settlements have banned some scholarship service companies from engaging in scholarship or telemarketing services and required other companies to post hefty performance bonds to protect against fraudulent activities in the future. In some cases, the FTC obtained partial or complete consumer redress. In one case pursued by criminal authorities, an operator of a fraudulent scholarship search service was sentenced to three years in prison.

Scholarship scam artists prey on concerns about the high cost of college and potential for heavy debt. Some take advantage of parents' and students' unfamiliarity with the financial aid application process; indeed, many consumers find it overwhelming. McPherson says that's why she signed up with a scholarship service.

"We didn't know much about college," she says. "We figured that these people would have the information. We thought they could help us."

The operators of financial aid scams generally promise services that will ensure the student receives a scholarship or increased financial aid. In fact, says the FTC, for fees ranging from \$49 to hundreds of dollars, they provide few services, if any, to help students and their families find financial aid.

If the service company provides information, it is generally of little use to the student. A former student who now works for a public interest group told a Senate committee last fall that his parents paid \$200 to a scholarship service. They received information geared to American Indians and premedical students, even though the student informed the scholarship service that he was of East Indian descent and interested in political science.

Often the information the scholarship service provides is available free in books, on the Internet or in financial aid offices.

The scam artists sometimes collect the fees by debiting credit cards or checking accounts with or without the students' or their parents' consent. They may say they need the account information to confirm a student's "eligibility." Some, such as the one McPherson signed on with, charge a monthly fee and get the consumer's authorization to debit the account monthly for an undetermined period.

The scam artists market their offerings to students and their parents by calling them at home, sending them letters and postcards, and putting on seminars – sometimes even on college campuses. Many advertise on the Internet and solicit by email. McPherson says she received an invitation to attend a seminar on financial aid for college to be held at a nearby hotel.

Spotting a Scam

Scholarship or financial aid scams can be hard to spot because promoters often imitate government agencies, legitimate grant-giving foundations, education lenders, or scholarship matching services. They may use words like "national," "federal," "foundation," and "administration" in their titles. Their letters may be printed on red, white and blue letterhead and contain official-looking seals. They may make false claims of approvals or affiliations with government agencies, Chambers of Commerce or Better Business Bureaus.

And they may make statements like these:

- ◆ *"The scholarship is guaranteed or your money back."* Says the FTC: No one can guarantee that they'll get you a grant or scholarship. And the refund guarantees that are offered usually have so many conditions or strings attached that it's almost impossible for consumers to get their money back.
- ◆ *"You can't get this information anywhere else."* Scholarship information is widely available for free from financial aid offices and on the Internet, if you're willing to get it.
- ◆ *"We'll do all the work."* Only parents and students can determine and provide the financial information needed to complete the forms. And to apply for scholarships, students generally are required by the scholarship provider to be part of the process.
- ◆ *"You've been selected by a national foundation to receive a scholarship."* If you haven't entered a competition sponsored by the foundation, view this claim with suspicion.
- ◆ *"May I have your credit card or back account number to hold this scholarship."* This is never a requirement for a legitimate scholarship offer.
- ◆ *"The scholarship will cost some money."* Legitimate scholarship offers never require payment of any kind. Free money is free money, unless it's a loan. If it is a loan, any fees that may be charged, such as the origination and guarantee fees, are taken out of the disbursement check.

And, says Gregory Ashe, an attorney in the FTC's Bureau of Consumer Protection, "Scam artists often will urge you to sign up on the spot, explaining that 'the company won't be back in the area again' or 'the offer is good for today only.'"

"In our experience, a legitimate company lets you have time to make up your mind," he says. "A fraudulent company is more interested in getting your money."

If a company makes these types of claims, the FTC says steer clear.

Investigate Before You Invest

If you're considering a financial aid service, it's always best to check it out first:

- ◆ Ask the financial aid counselor at your school (in high schools, it may be the guidance counselor) for a reference on the company and its offer.
- ◆ Ask the company for the names and telephone numbers of other parents or students near you who have signed on with the company. Call these people and ask how they rate the company and its services.
- ◆ Contact the Better Business Bureau in the area where the company is based and the area where you live to see whether the company has a history of unresolved complaints. When checking on a prospective company, keep in mind that while a complaint record may indicate questionable business practices, a lack of complaints doesn't necessarily mean the company is without problems. Unscrupulous dealers often change names and locations to hide a history of complaints.
- ◆ Verify that the scholarship service is a corporation, if that's what it claims. FinAid, a website on student financial aid (www.finaid.org), suggests that you verify that claim with your state's corporation bureau, usually within the Attorney General's office or the Secretary of State's office. The bureaus can tell you whether a business is incorporated and give you details about the organization, such as its date of incorporation, the corporate address and the names of company principals. You may discover that the company's claims don't hold up.

If your investigation turns up no suspicious behavior about the company and you are comfortable with its offer, get the refund policy in writing before you sign anything and give up any money or account information.

Reporting Fraud

The FTC works for the consumer to prevent fraudulent, deceptive and unfair business practices in the marketplace and to provide information to help consumers spot, stop and avoid them. To file a complaint, or to get free information on any of 150 consumer topics, call toll-free, **1-877-FTC-HELP** (1-877-382-4357), or use the complaint form at www.ftc.gov. The FTC enters Internet, telemarketing, and other fraud-related complaints into **Consumer Sentinel**, a secure, online database available to several hundred civil and criminal law enforcement agencies in the U.S. and several other countries.

McPherson, who reported her experience to the FTC, has made her own attempt to get the word out about scholarship scams. "I let people know that when they see those scholarship service ads, [a lot of them] are rip-offs. Do your research before you sign up."

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